U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

http://finance.senate.gov

Please note: Sen. Chuck Grassley, chairman of the Committee on Finance, was scheduled to give the following remarks before the Tax Council today but was unable to because of the length of the Snow nomination hearing. A staff member delivered the speech instead. It might be helpful background.

Prepared Remarks Before the Tax Council
January 28, 2003

Today, I would like to walk through some of the major tax issues that we are considering and give you an assessment of their current state of play. The first order of business will be our economy. Any economic stimulus package must meet three criteria. First, it must be economically efficient, meaning that it must produce jobs, good jobs, lasting jobs. Second, its effect on the economy must be immediate; there should be minimal delay in its stimulative effect on the economy. And, third, the package must have bipartisan support in a 51-49 Senate.

In the next few weeks, we plan to start hearings on the President's "Near Term Growth & Jobs Package." There are many elements of that package that should draw immediate bipartisan support, such as:

- Expanding the 10% rate bracket
- Reducing the marriage penalty
- Increasing the child tax credit, and
- Increasing the small business deduction.

I know many of you are interested in the President's exclusion for dividend income. Eliminating the double taxation of dividends is good tax policy.

Taxing income twice distorts basic business decisions and results in economic inefficiency. A dollar of income should not be taxed by the government when it is earned and again when it is transferred to its true owner.

I will work closely with my colleagues on both sides of the aisle to craft a growth and jobs proposal that can be passed in a 51-49 Senate. I would note, however, that while many of my counterparts complain about the state of the economy and the stock market, few have offered creative solutions.

I commend the President on his effort to craft a fiscal policy that would address the difficult issues facing our financial markets and the impact those issues have on Americans' sense of financial well-being. I challenge the detractors of the dividend exclusion proposal to offer creative solutions of their own.

Another important issue is the WTO decision on FSC-ETI. Our bipartisan bicameral working group has continued throughout the fall.

I think we can reach an agreement on this issue, if all parties interested in FSC-ETI are reasonable and the EU shows some restraint. We showed restraint on beef and bananas. The EU should allow us time to enact legislation before even considering sanctions.

As for the timing of tax legislation, the economy comes first. If we move economic stimulus under reconciliation, we hope to have it on the floor in an April-May timeframe. The American people need us to act. I would not expect us to take up FSC-ETI until after stimulus.

There is also some unfinished business from last year. Tax shelters tops the list. You should expect reintroduction of our Tax Shelters Transparency Act that was voted out of Finance Committee last Congress.

Many have expressed concern about codifying the economic substance doctrine which was included in the small business and farm relief mark last year. We are still looking at this issue. It raises many policy issues.

Also, the proposal to require CEOs to sign tax returns was in last year's pension bill. This is more of a tax shelter issue and should be analyzed in that context.

The SEC recently declined to ban accountants from selling tax shelters to their audit clients. I offered an amendment to the Sarbanes-Oxley bill that would have banned accountants from opining on the financial statement effects of tax shelters they sold to their audit clients, so I am disappointed with the SEC's decision.

Inversions will also be on the table this year. We will reintroduce both our REPO bill and our RECAP bill. The homeland defense bill contained a provision barring inverting corporations from receiving federal contracts, but we will reintroduce the RECAP bill because the homeland ban is easily evaded.

To evade the ban, all an inverting company has to do is have a phony "front" company bid for the federal contract and then subcontract the entire job to the inverter corporation.

The homeland ban fails to stop extensions or modifications of the existing contracts of inverted companies, so those contracts could continue without restriction.

Sen. Collins joined Sen. Baucus and me as an original cosponsor of the RECAP bill. Now that Sen. Collins is chair of the Government Affairs Committee, we look forward to working closely with her in improving and moving the RECAP bill.

Among other unfinished business from last year is the pension bill, which was S. 1971 in the 107th Congress. This bill was caught up in the end of the session gridlock and needs enactment. It will provide workers with important new diversification rights so that they can better manage their retirement accounts. We will probably introduce the bill as reported from the Finance Committee last July this session.

Other unfinished pension business includes adjustments to the 30-year Treasury bond interest rate that is used to value pension assets and liabilities.

Airline pension plan under-funding has emerged as a new problem that the committee will face.

In other business, the present federal moratorium on the states' ability to tax Internet transactions expires this year. There are several other provisions that will expire this year.

With that, I would like to open our discussion to any questions.